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Organization and Personnel of State Sales Tax Administrations

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Abstract

There has been a continued trend toward use of the functional organization in revenue departments, rather than type-of-tax; thus sales tax administration is integrated with that of state income taxes, though in some instances actual integration is much less than suggested by organizational charts. Only North Dakota continues to use a strict type of tax organization, but states not having income taxes have basically this structure, since sales taxes so dominate the other taxes.

There has been a steady trend toward almost universal use of merit personnel systems, in great contrast to three decades ago. Salaries are reasonably competitive with the private sector except at higher levels. Audit staffs, the key to successful operation, are smaller relative to the number of accounts than a decade ago.

ORGANIZATION AND PERSONNEL OF STATE SALES TAX ADMINISTRATIONS

John F. Due

This paper provides an overview of the organization and structure of the state revenue departments, with emphasis on sales taxes, and information on the primary types of personnel, including numbers, qualifications, hiring, and salaries.

OVERALL STRUCTURE OF TAX ADMINISTRATION

The overall organization for tax administration falls into two major patterns: a single head, in most states appointed by the governor, or a commission. There are several variants of each.

Single Head - Appointed

The most common pattern is one in which the head of tax administration is appointed by the governor and serves at the pleasure of the governor. The titles, however, vary.

Commissioner: In 13 states the head has the title of Commissioner, either Commissioner of Revenue (Arkansas, Indiana, Vermont [of Taxes], and two nonsales tax states, Alaska and New Hampshire); or Commissioner, Department of Revenue, eight states (Alabama, Connecticut, [of Revenue Services], Georgia, Massachusetts, Michigan [Bureau of Revenue], New York [Taxation and Finance], Tennessee, and Virginia).

The related term of Tax Commissioner is used in Nebraska and Ohio.

Director: In 14 states, the term Director of the Department of Revenue is used (in one, Delaware, Director of Revenue). The other states are Arizona, Colorado (Executive Director), the District of

Columbia (Finance and Revenue), Florida (Executive Director), Hawaii (Department of Taxation), Illinois, Iowa (Revenue and Financial Administration), Missouri, Nevada (Executive Director, Department of Taxation), New Jersey (Division of Taxation), Washington, and two nonsales tax states, Montana and Oregon.

Other: The term Tax Assessor is used in Maine, Tax Administrator in Rhode Island.

Permanence - The states fall into two general patterns with regard to permanence of appointed heads. In several, by tradition the head of the service, while appointed by the Governor, does not change with administrations. Iowa is perhaps the best example, but there has been substantial permanence in Arizona and Arkansas. The extreme example is that of Commissioner Morissett of Virginia, who served for 43 years. By contrast, in many states, and Illinois is a good example, the change in administration, even if in the same party, results in a shift in the headship.

Background: The backgrounds of the persons selected as head vary widely. Apart from the states in which by law or practice the person has risen through the ranks of the department or other state agencies, the majority of the heads are lawyers, often specializing in tax practice. A few are CPAs and others come from the business world. Several have been state legislators, usually with an interest in taxation. The general impression one gets is that most of the appointments in recent years are nonpolitical, that the persons chosen have substantial background and competency for the positions, much more so than two or three decades ago.

<u>Single Head - Civil Service Position</u> - There are three exceptions to the rule of appointment. In Rhode Island, Michigan, and Virginia, the headships of tax administration are civil service positions, not political appointments, and do not change with changes in the state governor's office.

<u>Single Head - Jurisdiction of Other State Officials</u>: In two states, Maryland and Texas, the heads of tax administration are under the jurisdiction of the state controller, an elected state official, rather than the governor. Since the comptrollers have retained their positions over long periods, there has been substantial permanence to the headships of taxation. In Michigan, while the Commissioner of Revenue is a civil service position, technically the office is under the jurisdiction of the State Treasurer.

<u>Single Head - Elected Commissioner</u>: In only one state is the tax commissioner elected by popular vote, namely, North Dakota. But the persons have had substantial tenure. Currently both United States Senators from North Dakota are former state tax commissioners.

<u>Commission Form of Organization</u>

In six states tax administration is under the jurisdiction of a commission rather than a single person. This is largely a carryover from earlier decades when a major function of the states in the tax field was to review local property tax assessment to gain greater state-wide equality. One additional state, Nevada, has a commission, but it is not involved in tax administration, and others have them purely for taxpayer appeals purposes.

Elected Commission: California is the only state to elect the commission; the State Board of Equalization has four members elected from districts, plus the state comptroller, an elected official, a system that dates back for over a century, specifically to 1879.[1] The members of the Board chose the Executive Director (formerly called Secretary) and play a substantial role in the operation of administration.

The members of the Board in recent decades have been persons with substantial background and experience for the positions, and despite the election choice, have often served for a number of years.

Appointed: In the other six states, Utah, Idaho, Mississippi, South Carolina, Oklahoma, and Wyoming, the members of the commission are appointed by the governor, and in turn choose the administrator. In Idaho, however, each member takes responsibility for one segment of the tax system; there is no director of revenue, as there is, for example, in Utah.

Choice Among the Various Structures

By usual standards of public administration, the optimal structure for tax administration is one headed by a single commissioner either appointed by and responsible to the governor, or a career civil service employee. Choice between these two is largely an issue of whether the tax administrator should be regarded as in part a policy official, to assist in carrying out the governor's agenda, or strictly an

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[1]The state finally revised the districts of the members; until recent years the entire southern portion of the state, with a majority of the population, had only one board member--reflecting the population distribution of the 1870s.

administrator not involved in policy. Regardless of the solution for this issue, centering responsibility in one person, responsible only to the governor, who in turn is responsible to the voters, is widely regarded as optimal for high quality administration. The commission form of organization can easily result in divided responsibility, with overall policies not integrated. No one person is specifically responsible for effectiveness.

By usual principles, election of administrative officers, for taxation or any other purpose, is unsatisfactory. The average voter is not in a good position to evaluate candidates' relative qualifications for administration, and there is grave danger of political interference with decision making, as the administrator is influenced by pressure from major contributors. Competent persons may be unwilling to run for election.

Yet in practice there has been no clear-cut difference in performance among the various systems of organization. California, with the worst possible features of organization, has long been regarded as having one of the best, if not the best, operations of the sales tax. There is no obvious correlation between the form of organization and the efficiency of operation of the sales tax, which is of course difficult to measure. The competence of the persons in key positions in the administration appears to be more significant than the precise form of organization.

ORGANIZATIONAL STRUCTURE FOR SALES TAX ADMINISTRATION

The revenue departments have responsibility for all taxes, with minor exceptions, other than in California, in which a separate state agency, the Franchise Board, administers the income tax. But the internal organization for handling the various taxes differs widely. At the one extreme are the states in which administration of the sales and use tax is concentrated in a separate bureau or division, as was typical in the early years of the development of the state sales taxes. At the other extreme are the purely functional states, in which there is no separate sales tax unit at all, but various bureaus or divisions administer all taxes in an integrated fashion. Other states fall into the intermediate pattern, with some features of each.

Type-of-Tax Organization

When the sales taxes first were introduced in the 1930s, the most common form of organization was to establish a separate division to administer the sales tax, under a sales tax director. Many states at the time did not have income taxes (only 18 had in 1930). Gradually this form of organization has given way to the functional form discussed below, and today only one state still uses organization according to type of tax, namely, North Dakota. The state has both sales and income taxes, but the sales tax division is fully responsible for the operation of the tax. North Dakota once tried the functional form but returned to the type-of-tax form, and appears to be satisfied with it. The current director has held the position for 23 years, as of 1993.[1]

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[1]In North Carolina Erich Gooch headed the Sales Tax Division for 35 years. This state was partially functional in organization.

This pattern is approached in practice, however, in other states. First, in California, the income tax is administered by a separate agency, and the State Board of Equalization is involved primarily in the operation of the sales tax, plus related excises. There is a sales and use tax division, but this unit does not have a field staff; compliance and audit are under the jurisdiction of the Field Operations division.

In the states which do not have an income tax, the sales tax, along with related excises, tends to dominate revenue operation. Washington technically has a functional form of organization, but there is no income tax; the sales tax operation is integrated with that of the related business activities tax, of major importance as a revenue source. Florida, Nevada, and Texas have functional organizations, but with no income tax the sales tax is dominant. In Wyoming, the Excise Tax division administers the sales tax along with excises.

Sixteen states have a purely functional organization, with no sales tax unit; each division handles all of the taxes, except as noted below. These states are Arizona, Illinois, Indiana, Kansas, Massachusetts, Minnesota, Missouri, Nebraska, New Jersey, New Mexico, Rhode Island, South Carolina, Tennessee, Vermont, West Virginia, and Wisconsin. But as will be noted with respect to audit, not all of these states in practice have integrated audit of sales and income taxes.

A second group of states has a functional form of organization, but also a sales tax division that has no field force. These states are Arkansas, Georgia, Kentucky, Louisiana, Maine, Michigan, New York, Oklahoma, Pennsylvania, Utah and Virginia. The sales tax divisions are primarily concerned with interpretation, legislation, new accounts

(Maine), issue of warrants (Mississippi), correspondence, processing (New York).

A few states have a basically functional organization, but some sales tax division field operations: compliance in Alabama and Maryland, audit in Idaho and Oklahoma.

The general picture is in great contrast to a few decades ago; in 1970, for example, 13 states had both internal and field operations in a sales tax division, under a director responsible for operation of the tax.

The trend toward the functional form of organization is a product of several influences. There is at least a belief that there are potential economies in operation--for secretaries, for travel time of field personnel, etc.,--by integrating administration of the various taxes, though documentation of net savings is not available. Perhaps more compelling is the desire to minimize nuisance and costs for business firms, by not subjecting them to separate audit visits for the various taxes. Visits of auditors always require staff time and can be disrupting influences. Finally, public administration advisory firms have tended to favor this form of organization.

There are, however, limitations as well. Under the pure form of functional organization, no one person is fully responsible for the operation of the sales and use taxes, as responsibility is spread over a number of persons. Coordination of the work of persons in various bureaus dealing with sales taxes may be difficult to attain. Functionalization may or may not bring true integration of work on the various taxes. While some states insist that they have true integration of sales and income tax audit, in many, this function, though under one division, is not truly integrated; some auditors do only sales tax audit, others only income tax. This issue will be considered later in the chapter and in detail in the chapter on audit.[1]

Other Aspects of Organization. The details of organization differ widely even among the function-organized states. Some appear to be clear-cut and logical. Wisconsin, for example, has separate bureaus for Audit, Compliance and Processing. New Jersey's is very similar: Enforcement, Collections Audit, Processing. But others appear complex and confusing. In Missouri, for example, compliance is under the bureau of tax administration, audit under a separate division.

Other Headquarters Units

Apart from the units noted, there are other headquarters unit personnel.

Office Auditors. In earlier years, it was common for revenue departments to have office auditors, who would check incoming returns for errors and aid in selection of the accounts for field audit. This work has largely been replaced by data processing equipment, which, for example, checks arithmetic on returns and may be used via computer-based formulas to aid in audit selection. But about half the states do have office auditors or technicians who perform various tasks. These vary among the states:

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[1]A comparison of employment in departments organized on a tax-by-tax basis against employment by functionally integrated departments found no statistically significant difference after allowing for size of the state. Indeed, employment was slightly lower in the former departments. John L. Mikesell, "The Structure of Revenue Departments," National Tax Journal, Vol. 34 (June 1981), pp. 217-234.

Arizona, a small number.
California, a number (447) of paraprofessionals, who handle phone calls and provide other information, etc.
Colorado, 8, who perform various specialized tasks.
Florida, information exchange.
Idaho, handle correspondence, registration questions.
Kentucky, review for possible audit selections, the closest to the earlier pattern.
Maryland, bulk sales, information exchange.
Massachusetts, information exchange.
Minnesota, check returns computer has questioned.
Mississippi, check for obvious errors.
Nevada, in district offices, counter work.
New Mexico, information exchange.
New York, tax technicians, requiring 12 hours accounting.
North Carolina, 6, in sales tax division.
Ohio, bulk sales.
Rhode Island, a few, in office of assessment and review.
South Carolina, review of returns, for obvious errors.
Tennessee, 23, not true audit.
Vermont, desk audit, correspondence, information.
Washington, close to traditional office audit, verify returns, contact taxpayers.
West Virginia, 5, check returns for obvious errors.

Legal. The revenue department typically has its own legal staff, though the attorneys in some states are technically under the jurisdiction of the state attorney general.

Research. The larger states usually have research units. Some of these do little more than provide tax revenue projections, including revenue shifts from effects of changes in rate and coverage of the tax. In some states, for example, California and Tennessee, substantial attention has been given to improved methods of establishing priorities for selection of firms for audit. California, Minnesota, and New York are examples of states with established revenue research activities. The smaller states do not carry on activity that could appropriately be called research. Revenue estimation is not necessarily carried on in the revenue departments but may be in the budget or other state office.

Computerization. As noted in subsequent chapters, the revenue department may have its own computer system, but commonly revenue is served by the general state system. Even so, however, the revenue department has some personnel involved with the computer system, such as programmers.

Statistical. Either separately or as a part of the research or computer units, typically some personnel are involved with the compilation of statistics of collections from tax and publication of the data. South Dakota contracts this work out to the University of South Dakota.

District Offices

Table 1 shows the number and major features of the district offices. All states except Kansas, Rhode Island and Vermont have district offices, although in Arizona they merely provide office space for field personnel.

The majority of the offices are involved in both compliance and audit work, but there are exceptions. In Maryland, Missouri, New York, Pennsylvania, and in part of Texas, there are separate offices for audit and for compliance. The district offices are primarily involved in audit in Connecticut, Maine (only audit), Minnesota, North Dakota, Utah and Wisconsin. By contrast, they are involved only in compliance work in Idaho, Oklahoma, West Virginia and Wyoming, audit being conducted from headquarters.

A related issue is that of the relative centralization and decentralization of administration. The distinction is basically one of degree. The highly decentralized states with much of the activity

Table 1

DISTRICT OFFICES

	Number	Features
AL	8 plus suboffices	Primarily audit, some compliance
AZ	3	Mainly offices for personnel
AR	5	Audit, compliance
CA	17 plus 43 sub	Audit, compliance
CO	5	Audit, compliance
CT	5	Audit primary
FL	5 districts, 21 offices	Compliance
GA	11	Compliance
HI	4	Audit, compliance
ID	6	Mostly compliance, audit from hq.
IL	12 plus 30 sub	Compliance, audit
IN	12	Audit, compliance, information
IA	6 plus 6 sub	Audit, compliance
KS	none	Auditors located in 3 cities
KY	11	Audit, compliance, information
LA	8	Audit, compliance
ME	3	Audit only
MD	5 audit, 4 collection	Separate offices for audit and collection
MA	10	Audit, compliance, information
MI	5 plus 50 sub	Audit in all, collection in some
MN	8	Mostly audit, compliance from hq.
MS	10	Compliance, audit
MO	10 compliance, 7 audit	Separate units
NE	5	Audit, compliance
NV	3	Audit, compliance
NJ	10 DO, 4 regional	Audit, compliance, information
NM	3 plus 3 sub	
NY	11 audit, 12 compliance	Audit and compliance separate
NC	14	Audit, compliance, plus 52 revenue office locations
ND	3	Mainly audit
OH	11	Audit, compliance
OK	5	Compliance only, no audit
PA	9 audit, 23 collections	Budget, compliance, separate office
RI	0	
SC	9	Audit, compliance
SD	7	Audit, compliance
TN	8 audit, 7 compliance	
TX	21 audit, 33 compliance	Separate in urban areas
UT	3	Mainly audit
VT	0	
VA	8	Audit, compliance information
WA	16	Audit, compliance
WV	7 plus 16 sub	Compliance; auditors work from homes
WI	4 plus 30 sub	Audit mostly
WY	10	Compliance only
DC	0	

located in the district offices (which often play a major role in selection of accounts for audit) are Alabama, California, Mississippi, South Dakota and Tennessee, with considerable decentralization in Illinois, Iowa, and Louisiana. The most highly centralized states are Arizona, Idaho, Kansas, Maine, Maryland, Missouri, North Dakota, Oklahoma, Rhode Island, Vermont, Wisconsin, and Wyoming.

The other issue is the extent to which the district offices are integrated by type of tax. The extent depends primarily on the general organization of tax administration: the strictly functional states typically have integrated district offices, but so do some of the states with less functionalization in organization, especially on compliance.

In the states in which the district offices are involved in audit, as is true in most states, most of the audit staff is assigned to the district offices, except some personnel located in headquarters used state-wide for firms in complex industries and review of returns. Auditors, however, are not assigned to particular areas in a district. Compliance personnel are likewise assigned to district offices and suboffices, and in a number of states to areas within the districts, often identified by zip code. Examples include Louisiana, Mississippi, Texas and Washington. In Kansas the compliance personnel are assigned to areas but not district offices.

PERSONNEL SYSTEMS

There are substantial differences among the states in selection and functions of personnel.

Civil Service or Other Merit Personnel Systems

Very slowly over the years, tax administration personnel have been brought under civil service or equivalent merit systems, giving reasonable assurance of selection on the basis of merit--at least meeting minimum qualifications, and ensuring permanence of office under usual conditions, eliminating political influence in selection, promotion, and retention of personnel. In 1962, ten of the 33 sales tax states had no merit systems; as of 1993 there are only two that have no merit systems, though one of these has an internal system comparable to civil service or the equivalent. Three have only limited systems. Those with no or partial merit systems are noted below.

North Dakota. The Tax Department has complete control over hiring, promotions, and firing, establishing qualifications and interviews in headquarters. But there is a high degree of permanence.

South Carolina. The situation is similar to that of North Dakota. The tax commission sets qualifications for various positions, recruits new personnel, and establishes salary schedules. There has been a high degree of permanence for employees.

Missouri. This was one of the last states to move toward any form of merit system, with much political influence in hiring in the past. Currently all but about 100 employees are subject to a merit system.

Texas. The Comptroller has complete power to hire and fire; there is no state-imposed merit system. But the Comptroller's Office has its own personnel system, with merit selection, and in fact a high degree of permanence. Because the Comptrollers have served long periods, any likelihood of substantial turnover of personnel has been lessened.

<u>Pennsylvania</u>. This state has never had a complete merit system, generally only auditors being covered, the collection unit unionized.

In general, while civil service is not yet complete, the worst abuses have gone--the selection of personnel on the basis of political considerations, hiring and retention of unqualified persons, firing at will. The earlier miscreants, New Mexico, Indiana and Missouri, have either moved to almost complete merit systems or greatly improved their systems. The advantages of merit systems are now so universally accepted, at least in principle, that there is no need to review the issues. Civil service or merit systems have some limitations, without question, such as the difficulties in getting rid of personnel who turn out to be incompetent, frequent inability to hire above the initial grade, and rigidities in promotion, but these are far more than offset by the greater possibility of efficiency.

In a few states, such as New Jersey, Minnesota and Pennsylvania, many employees of the revenue department have been unionized. Whether this is of great benefit to the employees is doubtful, but it does provide a better system of handling grievances. It can add to the rigidities created by merit systems.

<u>Vertical Coverage</u>. The states with merit systems differ as to how far up the organizational structure civil service extends. As noted, in Rhode Island, Michigan, and Virginia, even the commissioner is under civil service. In West Virginia only the commissioner is not covered. The majority of the states, however, exclude a few other top personnel, such as the deputy directors or deputy commissioners. In Arizona only two are excluded.

In several states the division chiefs are covered: Louisiana, Maine, Minnesota, North Carolina (most), Ohio, Utah, Vermont, Wisconsin. In other states, however, the division directors are not covered: Indiana, Kansas, Massachusetts, Nevada, New York (partial).

The Hiring Process

While the details vary, the general procedure is much the same, except in states such as Texas and South Carolina, where revenue has complete jurisdiction, and in California, in which the state personnel agency allows the Board of Equalization to do its own hiring.

Under the usual procedure, the unit in Revenue involved, for example audit, will develop the qualifications for the positions it wishes to fill. These in turn will be submitted to the state personnel agency, which will prepare examinations, announce the openings and dates of the tests, administer the tests, and provide Revenue with a list, based either on the test scores alone, or the test results, education, and experience. Revenue in turn will review the list; typically it can hire from the top five, or in a few cases, ten. One difference among states is the relative emphasis upon tests and the other elements. For auditors, for example, some states do not require a written exam, if the person meets the requirements in terms of college education, hours of accounting, years of experience, etc. Other states require a written examination. Final decision of Revenue will almost always involve an interview as well as the information from the personnel agency.

Some states are permitted to recruit only at the beginning level, and must fill higher positions by internal promotion; others can recruit at higher ranks--particularly when the salary range at the beginning level is too low.

For compliance personnel, and to some extent for auditors, the department will seek to recruit from the area for which additional personnel are required.

Given the interest of many states in hiring new university graduates in accounting, a number of states send recruiters to colleges and universities in the state. Examples include Alabama, California, Kansas, Mississippi, North Dakota, Texas, Utah, Washington. Others note that they do not do so: for example, Michigan, Nevada, South Carolina, South Dakota. On some occasions in the past when the demand for graduates in accounting was very strong, a few states recruited at universities outside of the state.

Almost all states have been seeking to recruit more women and minorities; by contrast, 30 years ago there were virtually no women auditors. While precise data are difficult to obtain, some examples can be given. In Arizona, 14 percent of the auditors now are women, in Mississippi, 25 to 40 percent of new auditors, in Nevada, nearly half, in North Dakota, one-third, Washington and Wisconsin abut 30 percent. In recent years, six or more of the state heads of revenue have been women, in 1992, for example, Kansas, Kentucky, North Carolina, North Dakota, Vermont, and the District of Columbia.

While difficult to document, the general view of revenue departments is that even though they can recruit the number of persons authorized, they cannot get university graduates in the top ranking levels. They can get the middle and low level graduates from the best universities, and a broader range from smaller schools. There are several reasons: the salary levels, the prestige, especially of the top public accounting firms and major corporations, the failure to accept revenue department work for experience required for the CPA in most states, and the greater travel required in some states. Revenue department work does qualify for CPA-required experience in some states, but not in many.

A serious problem has arisen for revenue departments in recent years from state hiring freezes, preventing the hiring of new personnel even to replace those leaving. Illinois is a major example, but other states have also suffered. One of the most irrational policies states can follow is to freeze hiring of audit and other key personnel. As noted in later chapters, within reasonable limits, additional auditors will yield much more revenue than they cost.

FIELD FORCES

The key elements in state sales tax administration are the field forces--the persons with actual contact, when necessary, with the taxpaying firms. There are two basic field activities, (1) compliance, that of ensuring that firms are registered and file returns and make payment as required, as well as providing information to the firms and (2) audit, the examination of returns, accounts and records to ensure that correct amounts are paid. With a few exceptions noted later in the chapter, the states employ separate forces for compliance and audit.

Compliance

As noted above, compliance activities are designed to ensure that firms subject to the registration requirement are registered, file returns as required by law, make payments of tax, and observe other obligations.

Table 2 shows the titles, number and salary schedules for the compliance officers, and Table 3 the qualifications required for new employees in this category. The numbers vary widely, both in absolute numbers and in relation to the number of registered firms, in part because the policies with regard to providing information and dealing with delinquents vary substantially, as does the relative but rapidly increasing dependence upon "phone power," the practice of contacting delinquents by phone, as explained in detail in a later chapter. The titles vary tremendously, as noted in the table. Some states have distinct subcategories, differentiating between the telephone callers and those actually in the field, and between collection and other compliance personnel. There is also a wide range of salaries, beginning salaries as low as $15,000 and $16,000 in some states, with the maximum not exceeding $35,000 in a number of states. Of the states for which information is available, only Alabama, California, Minnesota, New Jersey, and Pennsylvania show substantially better salaries.

Qualifications. Most states with a separate compliance category do not stress a college degree, but emphasize experience. Only Iowa, Rhode Island, South Dakota, and Wyoming stress a college education. Five states require a degree or specified experience: California, Kentucky, Nebraska, New Jersey, West Virginia. But most states simply

Table 6-2

Compliance Personnel: Number, Title, Salary Schedules, 1991-1993

	Number	Title	Beginning	Senior	Supervisory	Integrated with Other Taxes
AL	40	Revenue Compliance Officers	19,609-29,796	23,881-36,245	30,524-40,358	Yes
AZ		Collectors				Yes
AR	16	Field Tax Investigators	16,458-	-28,054		Yes
CA	336[1]	Tax Representatives	26,880-28,968	27,720-39,000	39,960-58,188	Related Taxes
CO	24	Compliance Agents	27,528-36,871	30,348-40,656		Yes
CT		Revenue and Tax Enforcement Agents				Yes
FL		Collection and Enforcement Officers	18,882-	-30,384	23,916-48,672	
GA						
HI						
ID	28	Compliance Officers				No
IL	52	Collectors	24,606-32,004	27,120-35,536	30,132-39,918	Yes
IN		Field Investigators	15,730-	-22,750		Yes
IA	44	Agents	17,000-	-33,000		Yes
KS	44	Field Representatives	17,172-24,144			Yes
KY	67	Field Representatives	15,072-24,144	18,324-29,364	20,196-32,376	Yes
LA		Tax Officers				
ME		No separate personnel				
MD	65	Same titles as auditor staff	16,735-21,892	19,952-23,514	20,772-27,262	No
MA	209	Tax Examiner	23,369-		-49,258	
MI		No separate personnel				
MN	48	Revenue Examiners	22,175-27,812	25,160-32,873	31,738-43,618	
MS	61[2]	Revenue Examiners	16,000-	-30,000		Yes
MO	37	Revenue Agents	15,144-	-22,428		Yes
NB	49[3]	Field Service Agents	21,582-30,214	24,939-34,915		Yes
NV	22	Revenue Officers	23,209-	-34,144		No
NJ	150	Investigators	23,000-26,000	34,500-48,000	44,000-61,000 (Mgs)	
NM	51	Tax Compliance Specialists				
NY	380[4]	Compliance Officers (field)	24,500-31,300	25,780-31,451	31,597-	No
NC	180	Revenue Officers				Yes
ND	15		20,292-31,169	23,484-35,911		No
OH		No separate personnel				
OK						

	Number	Title	Beginning	Senior	Supervisory	Integrated with Other Taxes
PA	260	Revenue Enforcement and Collection Agents	22,611-34,964	25,995-40,176		Yes
RI		Revenue Officer	20,727-23,309	26,160-29,468	39,301-44,643	
SC	77	Revenue Officers	19,375-29,062	21,789-35,367	26,515-39,773	Yes
SD	15	Revenue Officers	18,137-27,206	22,172-33,238		No
TN	113					Yes
TX	322	Enforcement Officers	20,652-22,032	25,140-33,792		Yes
UT	4[6]	Agents				Yes
VT		No separate personnel				Yes
VA		State Tax Field Representatives				Yes
WA	101	Tax Examiners	20,496-25,872	25,872-33,024	28,488-36,444	Yes[5]
WV	23	Revenue Agents	25,876-	-27,480		Yes
WI		Revenue Agents				Yes
WY	11	Tax Compliance Officers	21,500-	-35,000	26,700-44,300	No
DC						

[1]Plus 80 supervisors.
[2]Sixty percent of time to sales and use taxes.
[3]Sixty-five percent of time to sales and use taxes.
[4]Plus 112 phone personnel.
[5]With business activities tax.
[6]Only one on sales tax.

Table 3

Qualifications Required for State Sales Tax Compliance Personnel

AL	Grade II, some accounting; Grade III level, college degree.
AZ	Primarily experience.
AR	High school, 6 hours accounting. Some with college degrees.
CA	Recruit at college level, less stress on accounting; alternatively, college and experience.
CO	Two years experience in collection, etc.; may substitute university work for one year of experience.
CT	
FL	High school diploma and 2 years experience.
GA	
HI	
ID	Business experience rather than college.
IL	Experience. Not audit background.
IN	Experience, business or collection.
IA	College degree.
KS	Not college graduate; some bookkeeping.
KY	College degree, can substitute experience, 2 years for one.
LA	Three years experience in business, or education.
ME	No separate personnel.
MD	Not require college degree.
MA	
MI	By audit staff - not separate classification.
MN	Examination.
MS	Two years college or experience.
MO	Two years college; many have college degree. Not stress accounting.
NB	College degree in business, or three years business experience.
NV	Business experience.
NJ	College degree, can substitute experience.
NM	
NY	Two years experience in business or three years public contact.
NC	
ND	
OH	No separate staff.
OK	
PA	College degree and six hours accounting or experience.
RI	College degree, employment in loan work.
SC	
SD	As auditors, college degree and 12 hours accounting, consider personality.
TN	
TX	
UT	
VT	No separate personnel.
VA	
WA	
WV	College degree and 6 hours accounting; can substitute experience.
WI	Business experience, and some accounting.
WY	College degree plus 3 years experience.
DC	

stress business experience and some knowledge of accounting--often six college hours or the equivalent.

The Field Audit Staff

The most important key to successful sales tax administration is the audit staff; not only does it bring in substantially more revenue than it costs, but its existence ensures much greater conformity with the law on the part of all--or at least most--firms.

Numbers. Table 4 shows the numbers of auditors; where figures are available, this figure is adjusted for the percentage of time estimated to be spent on sales and use tax audit in the states in which there is integrated audit. The figures for the other integrated states therefore overstate the number of auditors for sales-use tax work, but not to an extent rendering the figures meaningless, because sales-use tax work is dominant, in use of time, in all states with integrated audit.

The absolute numbers range from 1050 (adjusted for time to other taxes) in California, 734 in Florida, and 512 in Texas down to 15 in Wyoming and 18 in North Dakota. The pattern of numbers of sales-use tax accounts per auditor shows a substantial range, from a low (that is, a high figure of accounts per auditor) of 642 in Missouri to a high of 3335 in Florida, 3059 in New Jersey. States which appear to have the most adequate number of auditors are Alabama, Arkansas, California, Connecticut, Illinois, Indiana, Kentucky, Louisiana, Missouri (which has the best figure), Oklahoma, Rhode Island, South Carolina, Tennessee, Texas, Utah and Washington, though in Washington, substantial time is

Table 4

Numbers of Auditors, State Sales Taxes

	Number	Adjusted for Time to & Use Taxes	Number of Accounts Per Auditor	Belief of State in in Adequacy of Numbers
AL	100		752	No
AZ	96		1355	
AR	104		664	
CA	1050	1035	890	Yes
CO	70		2082	
CT	158		759	
FL	734		3335	
GA	138*			
HI	38*			
ID	28		1152	No
IL	330		716	
IN	197		878	
IA	64		2004	
KS	53		1957	No
KY	117*		834	
LA	85		941	
ME	32		1649	
MD	64		1656	
MA	182			
MI	214*		1089	
MN	60		2417	
MS	108	65	1169	
MO	175	117	642	
NB	31		2240	
NV	32		1199	
NJ	85		3059	
NM	76*		1200	
NY	322		1780	
NC	146*		1123	
ND	18		1550	No
OH	96*		2854	
OK	81		777	
PA	115		2687	
RI	47		745	
SC	138		741	
SD	33		1492	No
TN	173*		805	
TX	512		947	
UT	46		978	Yes
VT	27		1118	
VA	188*			
WA	150		856	
WV	50	32		
WI	122	67	2369	Yes
WY	15		1697	
DC				

*1992 figures shown in survey conducted by the state of Kansas.

[1]Thirty-six percent of audits are sales and use tax, but the percentage of time allocation is much greater.

allocated to the business activities tax. The largest numbers of accounts per auditor are found in Florida and New Jersey, followed by Colorado, Iowa, Kansas, Maine, Maryland, Minnesota, Nebraska, New York, Ohio, Pennsylvania, Wisconsin, and Wyoming.

Of a limited sample of states in which revenue officials were asked about the adequacy of the size of the audit staff, three indicated adequacy, all but one being states with a favorable ratio of auditors to accounts. Five indicated inadequacy, all but one of which had low ratios of auditors to number of accounts.

Assignment of auditors. In all except two states, most auditors are assigned to the district offices, or the regional audit offices if separate from compliance. Some auditors are retained in headquarters: for centralized audit review in most states, for specialized audit work on a state-wide basis, and in some states for aid in selection of accounts for audit.

The two exceptions are Idaho, in which all auditors work from headquarters, and neighboring Wyoming, in which the auditor staff is not even in Revenue, and works entirely from Cheyenne.

Integration of Sales Tax Audit With Those of Other Taxes. One of the goals of functional organization has been the integration of audit of sales and income taxes, particularly corporate income tax. A few states report complete integration; audit is conducted as a package of the various taxes: Colorado, Kentucky, Massachusetts, New Jersey, North Carolina (though sales and use tax audit takes about 70% of the audit time), Pennsylvania, Vermont, Virginia, West Virginia (65%), and Wisconsin. Some integration, but most of the time being allocated to sales and use tax. is reported in Arkansas, Indiana, Maine, Mississippi, Missouri (corporate income tax for smaller firms), Rhode Island, South Carolina and Tennessee. States without an income tax of course cannot have integration of sales and income tax audit, but integrate to some extent with other taxes, Washington, with sales and business activities tax, for example. California, in which the income tax is administered by a separate department, integrates sales and excise tax audit, as does South Dakota, with no income tax. Alabama and Oklahoma do not integrate audit of their sales taxes with the income tax, but do with taxes related to the sales tax. The remaining states report that in practice there is little or no integration of audit: Connecticut, Louisiana, Maryland, Minnesota, New Mexico, New York, North Dakota, Ohio, Rhode Island, Texas, Utah.

Integration should save time and expense for both the tax department and business firms. But it is difficult to ensure adequate training for all auditors in all taxes, and auditors tend to become more interested in one tax than the other. Criteria for priority in audit selection are quite different. Many states in practice do little income tax audit, especially of the personal income tax, relying on IRS audit. Under contractual arrangements, IRS reports the results of its audits to state revenue departments.

Qualifications. Table o-5 shows the qualifications required of newly hired auditors.

Twenty-five states of the 36 for which information is available require a college or university degree, specifically in accounting in Alabama, Idaho, and Nebraska; in Business Administration in several,

Table 1-5

Qualifications of Auditors

AL	Degree in accounting.
AZ	I - College degree. II - Degree and experience.
AR	College degree, 24 hours accounting.
CA	College degree, major in accounting; also exam, if 16 hours accounting, 3 business law.
CO	College degree including 30 hours accounting.
CT	
FL	
GA	
HI	
ID	Degree in accounting.
IL	Degree with work in accounting.
IN	Accounting background, and exam. Not require college degree.
IA	College degree, 12 hours accounting.
KS	College degree, BA or accounting major, 12 hours accounting, and exam.
KY	College degree, 20 hours accounting.
LA	24 hours accounting, college degree.
ME	Degree in business or accounting, or experience.
MD	College degree. For higher rating, qualifications to sit for CPA exam.
MA	
MI	College degree, 12 hours accounting.
MN	Six to nine hours accounting, exam, not require college degree.
MS	College degree.
MO	Degree in accounting or equivalent, or experience.
NE	Degree in BA, 24 hours accounting.
NV	Not require degree, most have experience in CPA firms, casinos.
NJ	College degree, with 18 hours accounting, or 24 hours accounting, 4 years experience.
NM	College degree and specified hours in accounting.
NY	Degree, 24 hours accounting, and test.
NC	Degree in BA or related, nine hours accounting, or for Grade I - 12 hours accounting
ND	Degree in accounting or BA
OH	Three courses in accounting or nine months experience, higher grade: accounting major or two years of experience.
OK	
PA	Degree with 15 hours accounting, or 15 hours in accounting and one year experience.
RI	Degree in BA and 18 hours accounting.
SC	
SD	Degree in accounting or BA or Econ, with 12 hours accounting.
TN	Degree with 27 quarter hours in accounting and one year experience or partial substitution of each for the other.
TX	Major in accounting with degree, or experience.
UT	Now seek MS in accounting, as required for CPA.
VT	Degree in accounting, or degree and one year experience.
VA	
WA	Thirty hours accounting and degree or college and experience.
WV	Degree, major in BA or accounting, including 18 hours accounting.
WI	Can't require degree, but enough accounting for CPA.
WY	Degree in business, prefer accounting.
DC	

BA: Business Administration
College degree: 4 year degree

with usually a requirement of 18 to 24 hours of credit in accounting courses. Utah has the highest requirement, seeking an MS degree in accounting, now required in that state for the CPA. Nine states stress the degree including work in accounting or equivalent experience. New Jersey and Washington require so much accounting that the requirement is not significantly different from requiring a degree. At the other extreme, Nevada and Minnesota stress experience rather than the degree.

As suggested by this review and strongly confirmed by discussions with officials in various states, there are basically two different philosophies. One is to recruit new university graduates in accounting and hope that they will make a career of revenue work. The opposite is to put greater stress on hiring persons with experience, with little or no emphasis on a university degree. Many states, of course, are in a sense a hybrid of the two--but there remains a noticeable difference in emphasis. One reason that a number of states prefer a university degree is that, especially in audit of the larger firms, where most of the auditing is done, the state auditors will be dealing with comptrollers and heads of accounting divisions who have university degrees.

Training of Auditors. In the great majority of states, the training is primarily on the job. The newly hired person is brought into headquarters or a district office for a week or so of instruction, in most states under a senior staff member, and then is assigned to work under a senior auditor, often for a period of six months or so. Some states offer virtually no formal training at all, relying almost entirely on on-the-job training.

Only a few states have more formal training programs. Wisconsin appears to have the most extensive program currently, essentially a one year program combining class work and on-the-job training. The California program is similar, alternating on-the-job and formal training. Michigan has a three months class program, then on-the-job and continuing classroom training. The program in Massachusetts is similar. South Dakota has a six months program alternating class work and on-the-job. Washington provides three weeks class instruction and six months work under a senior auditor. Colorado, Connecticut, and Oklahoma also have programs combining some class work and on-the-job work. The other states depend almost entirely on on-the-job training.

Many states do not hire sufficient numbers of new auditors in any one year to be able to provide formal classroom training economically; extensive programs of this type are confined to the larger states. But in recent years hiring freezes and lack of money for hiring have placed a number of larger states in the same situation.

Several states provide annual classes of a few days or a week, usually in headquarters, for review and discussion of changes in the act and procedures. Alabama, Massachusetts, Mississippi and Nebraska are examples.

In states with truly integrated audit, such as Wisconsin, training is provided in all of the taxes administered by Revenue.

<u>Salaries</u>. Table 6-6 indicates the salary ranges for auditors. Precise comparisons by state and over time are impossible, because of the lack of information on the number of persons at various salaries, whether or not hiring can be done above the first grade, speed of

Table 3-6

Salary Schedules of State Sales Tax Auditors

	Trainee	Beginning	Intermediate	Senior	Supervisory
AL		21,130-32,032		26,364-39,936	
AZ					
AR	16,458-28,054	18,642-31,878	21,190-	-36,194	
CA		26,880-31,944	33,240-40,080	39,960-48,216	41,832-50,460; 43,920-52,980
CO	21,756-	28,848-33,456	34,576-53,028	43,632-58,464	
CT					
FL		19,944-32,904	22,536-37,416	25,440-42,564; 27,120-45,576	28,884-52,128; 37,392-63,960
GA					
HI					
ID		21,653-29,037	26,337-35,218	29,744-39,874	32,033-42,900
IL	21,540-27,564	25,740-33,804	35,584-37,596	31,836-42,264	
IN		21,606-31,902	24,440-36,114	27,508-41,080	
IA		20,500-33,000		-44,300	
KS		24,144-33,918	26,616-37,440	29,328-41,640	30,792-43,344
KY		18,324-29,364	20,196-32,376	22,272-35,688	24,552-39,330
LA					
ME		21,257-28,745		24,148-33,092	
MD		20,772-27,262	22,360-29,362	24,084-31,628	30,106-39,544
MA		23,369-		-51,202	
MI		23,462-30,139	25,605-33,342	29,058-38,875; 30,902-42,328	35,984-49,608; 38,875-54,246
MN		25,160-32,823	26,789-36,519	29,650-40,612; 31,738-36,000	33,972-46,792
MS		22,000-			
MO		19,572-30,504			
NB		21,580-30,211	23,198-32,477	24,937-34,914; 26,809-37,531	30,985-43,379
NV		28,106-		-37,306	
NJ		29,330-39,361	32,797-45,911	37,968-53,161	43,995-61,537
NM					
NY		24,500-31,300		30,600-38,155	
NC	21,603-	30,489-47,249		33,434-51,892	36,666-56,971
ND		19,322-29,736	22,368-34,272	25,884-29,516; 29,976-45,612	34,692-52,680
OH		21,273-	22,339-	23,795- 25,750-28,163	
OK		20,325-26,617	22,718-29,827	24,861-32,697	
PA		19,658-30,396	22,611-34,934	25,995-40,176	
RI		24,468-28,208	28,208-31,673	31,817-36,027	35,678-44,643
SC		22,663-33,995	24,515-38,240	26,515-39,773	27,577-41,367
SD			18,137-		-27,200
	20,009-30,035;				
					22,172-33,238
TN		18,852-28,056	20,496-30,504	23,286-34,116	24,324-35,640; 26,436-38,928
TX		23,539-36,108	26,834-39,814	30,591-43,983	34,934-57,138
UT		20,405-30,222	25,251-37,814	28,101-42,078	31,304-46,613
VT		21,486-34,000		22,700-36,000	
VA[1]		25,191-38,463	27,538-42,087	32,910-50,248	
WA					
WV	18,420-32,800	20,076-35,856		21,924-39,228	
WI		27,500-		-47,532	47,532-
WY		18,060-			
DC					

[1]Higher in Northern Virginia District.

promotions, plus differences in cost of living. But the states do appear to fall into rather clearly delineated groups. At the beginning level five states are hiring under $20,000 and thus under usual conditions cannot recruit new university graduates in accounting. These are Arkansas, Kentucky, South Dakota, West Virginia and Wyoming. By contrast, another group recruits at over $25,000: California, Illinois, Minnesota, Nevada, North Carolina, Virginia and Wisconsin. At higher levels, with salaries over $40,000 for senior auditors, the top states are Alabama, Florida, Illinois, Indiana, Iowa, Kansas, Massachusetts, Michigan, Minnesota, New Jersey, North Carolina, North Dakota, Texas, Utah, Virginia, and Wisconsin. The overall highest schedule appears to be that of North Carolina. North Dakota is an anomaly, with very low starting salaries, but high senior and supervisory levels. The great majority of states are recruiting between $25,000 and $30,000, paying senior auditors $30,000 to $40,000, and reaching somewhat higher levels for supervisory personnel.

In a few state opinions were obtained about the adequacy of salary levels; for example, Alabama, Nevada, North Dakota and South Carolina indicated that salary levels were adequate to recruit and keep personnel; Illinois, Tennessee and Texas were among those indicating that the levels were inadequate. The ability to recruit in recent years has been facilitated by the recession and general lack of job opportunities;on the other hand, many states have been drastically restricted by hiring freezes, as noted above.

Joint Field Staffs

Four states, Maine, Vermont, Michigan and Ohio, do not have separate compliance and audit staffs; essentially the audit personnel do compliance work as well, typically the more junior persons or persons assigned to the work because of special qualifications, such as experience in collection. Persons hired, therefore, typically have more accounting background than those hired in other states for pure compliance work. Some personnel and business firm time may be saved by this approach, since a person sent out for compliance can also conduct an audit if necessary. But the system can easily waste time of qualified auditors, whose time is better spent on true audit work. The shifting of much of compliance work to phone power, handled by semi-professional or clerical personnel, lessens the need for separate compliance field staff. There is still compliance work, but most of it is done in headquarters or the district offices; if a visit to the place of business is considered necessary, this is made by a junior auditor.